

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Gun Lake Area Sewer Authority
Barry County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Years ended December 31, 2004 and 2003

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INDEPENDENT AUDITORS' REPORT

**Members of the Board
Gun Lake Area Sewer Authority**

We have audited the accompanying basic financial statements of the Gun Lake Area Sewer Authority, as of December 31, 2004 and 2003, and for the years then ended, as listed in the contents. These financial statements are the responsibility of the Gun Lake Area Sewer Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Gun Lake Area Sewer Authority at December 31, 2004 and 2003, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 7, the Gun Lake Area Sewer Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of January 1, 2004.

The Gun Lake Area Sewer Authority has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Siegfried Crandall P.C.

February 25, 2005

BASIC FINANCIAL STATEMENTS

Gun Lake Area Sewer Authority
STATEMENT OF NET ASSETS
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash	\$ 1,707,622	\$ 1,536,450
Receivables	100,775	86,925
Prepaid expenses	24,800	21,400
Inventory	<u>8,000</u>	<u>8,000</u>
Total current assets	1,841,197	1,652,775
Noncurrent assets		
Capital assets (net of accumulated depreciation)	<u>9,661,456</u>	<u>10,284,057</u>
Total assets	<u>11,502,653</u>	<u>11,936,832</u>
LIABILITIES		
Current liabilities:		
Accounts payable	10,815	8,735
Accrued expenses	<u>34,821</u>	<u>38,140</u>
Total current liabilities	<u>45,636</u>	<u>46,875</u>
NET ASSETS		
Investment in capital assets	9,661,456	10,284,057
Unrestricted	<u>1,795,561</u>	<u>1,605,900</u>
Total net assets	<u>\$ 11,457,017</u>	<u>\$ 11,889,957</u>

See notes to financial statements

Gun Lake Area Sewer Authority**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS***Years ended December 31, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Charges for services:		
User fees	\$ 821,454	\$ 801,344
Water administration	25,032	22,739
Other	<u>19,950</u>	<u>8,808</u>
Total operating revenues	866,436	832,891
OPERATING EXPENSES	<u>1,413,457</u>	<u>1,406,052</u>
OPERATING LOSS	<u>(547,021)</u>	<u>(573,161)</u>
NONOPERATING REVENUES		
Connection fees	88,620	48,206
Interest	<u>25,461</u>	<u>20,110</u>
Total nonoperating revenues	<u>114,081</u>	<u>68,316</u>
CHANGE IN NET ASSETS	(432,940)	(504,845)
NET ASSETS - BEGINNING	<u>11,889,957</u>	<u>12,394,802</u>
NET ASSETS - ENDING	<u>\$ 11,457,017</u>	<u>\$ 11,889,957</u>

See notes to financial statements

Gun Lake Area Sewer Authority
STATEMENT OF CASH FLOWS
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 853,566	\$ 837,495
Payments to suppliers	(465,202)	(447,575)
Payments to employees	(328,273)	(313,247)
Net cash provided by operating activities	<u>60,091</u>	<u>76,673</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	88,620	48,206
Purchase of capital assets	(3,000)	(23,366)
Net cash provided by capital and related financing activities	<u>85,620</u>	<u>24,840</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>25,461</u>	<u>20,110</u>
NET INCREASE IN CASH	171,172	121,623
CASH - BEGINNING	<u>1,536,450</u>	<u>1,414,827</u>
CASH - ENDING	<u>\$ 1,707,622</u>	<u>\$ 1,536,450</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (547,021)	\$ (573,161)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	625,601	637,171
(Increase) decrease in:		
Accounts receivable	(13,850)	3,497
Prepaid expenses	(3,400)	-
Increase (decrease) in:		
Accounts payable	2,080	2,582
Accrued expenses	(3,319)	6,584
Net cash provided by operating activities	<u>\$ 60,091</u>	<u>\$ 76,673</u>

See notes to financial statements

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Gun Lake Area Sewer Authority (the Authority) was established June 21, 1977, by the Townships of Orangeville and Yankee Springs, in Barry County, and the Townships of Martin and Wayland, in Allegan County, and incorporated under provisions of Act 233, Public Act of 1955, as amended. The Authority is governed by a board comprised of the supervisors of the townships. The Authority was formed to operate, maintain, administer, and manage sewage disposal system, pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of each municipality.

The accounting policies of the Authority conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to the constituent municipalities for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets and liabilities:

i) Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - All receivables are considered to be fully collectible.

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets and liabilities (continued):

iii) Capital assets - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Treatment plant	5 - 40 years
Building equipment	20 years
Sewer lines	40 years
Equipment	3 - 7 years
Lift stations	20 - 40 years

iv) Compensated absences (vacation and sick leave) - The amount attributed to the Authority is charged to expense and a corresponding liability. Employees may accumulate unused sick leave up to a maximum of 120 days. Employees with ten or more years of service shall receive one-half of accumulated sick leave and all accumulated vacation days upon retirement.

NOTE 2 - CASH:

Cash consists of deposits that are carried at cost and are maintained at one financial institution in the name of the Authority. State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. At December 31, 2004, the Authority has deposits with a carrying amount of \$1,707,622 and a bank balance of \$1,714,484. Of the bank balance, \$312,038 is covered by federal depository insurance, and \$1,402,446 is uninsured. At December 31, 2003, the Authority has deposits with a carrying amount of \$1,536,450 and a bank balance of \$1,541,534. Of the bank balance, \$313,945 is covered by federal depository insurance, and \$1,227,589 is uninsured.

NOTE 3 - RECEIVABLES:

Receivables (all of which are due within one year) as of year end for the Authority, in the aggregate, are as follows:

	<u>2004</u>	<u>2003</u>
Charges for services	\$ 68,017	\$ 51,627
Intergovernmental	<u>32,758</u>	<u>35,298</u>
Net receivables	<u>\$ 100,775</u>	<u>\$ 86,925</u>

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Authority for the year ended December 31, 2004, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets, being depreciated:				
Land improvements	\$ 91,144	\$ 3,000	\$ -	\$ 94,144
Collection and interceptor sewers	15,769,379	-	-	15,769,379
Lift stations	4,764,209	-	-	4,764,209
Tele-metering system	303,362	-	-	303,362
Treatment facility	5,448,559	-	-	5,448,559
Machinery and equipment	252,534	-	-	252,534
Subtotal	<u>26,629,187</u>	<u>3,000</u>	<u>-</u>	<u>26,632,187</u>
Less accumulated depreciation for:				
Land improvements	3,165	419	-	3,584
Collection and interceptor sewers	9,105,361	395,521	-	9,500,882
Lift stations	3,557,225	72,247	-	3,629,472
Tele-metering system	301,536	1,826	-	303,362
Treatment facility	3,160,586	141,568	-	3,302,154
Machinery and equipment	217,257	14,020	-	231,277
Subtotal	<u>16,345,130</u>	<u>625,601</u>	<u>-</u>	<u>16,970,731</u>
Net capital assets	<u>\$ 10,284,057</u>	<u>\$ (622,601)</u>	<u>\$ -</u>	<u>\$ 9,661,456</u>

Capital asset activity of the Authority for the year ended December 31, 2003, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets, being depreciated:				
Land improvements	\$ 91,144	\$ -	\$ -	\$ 91,144
Collection and interceptor sewers	15,769,379	-	-	15,769,379
Lift stations	4,764,209	-	-	4,764,209
Tele-metering system	303,362	-	-	303,362
Treatment facility	5,448,559	-	-	5,448,559
Machinery and equipment	247,708	23,366	18,540	252,534
Subtotal	<u>26,624,361</u>	<u>23,366</u>	<u>18,540</u>	<u>26,629,187</u>

Gun Lake Area Sewer Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS (Continued):

Capital asset activity of the Authority for the year ended December 31, 2003, was as follows (continued):

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Less accumulated depreciation for:				
Land improvements	\$ 2,796	\$ 369	\$ -	\$ 3,165
Collection and interceptor sewers	8,709,840	395,521	-	9,105,361
Lift stations	3,484,978	72,247	-	3,557,225
Tele-metering system	294,131	7,405	-	301,536
Treatment facility	3,019,018	141,568	-	3,160,586
Machinery and equipment	<u>215,736</u>	<u>20,061</u>	<u>18,540</u>	<u>217,257</u>
Subtotal	<u>15,726,499</u>	<u>637,171</u>	<u>18,540</u>	<u>16,345,130</u>
Net capital assets	<u>\$ 10,897,862</u>	<u>\$ (613,805)</u>	<u>\$ -</u>	<u>\$ 10,284,057</u>

NOTE 5 - DEFINED CONTRIBUTION PLAN:

The Authority contributes to a defined contribution pension plan covering substantially all of its employees. The Authority contributes 6.5% of annual employee compensation to the plan and the employees are required to contribute 5% of their annual compensation. The Authority made the required contributions of \$21,238 and \$20,299 and the employees made their required contributions of \$16,413 and \$15,615 for 2004 and 2003, respectively.

The Authority is not a trustee of these plans, nor is it responsible for investment management of plan assets.

NOTE 6 - CLAIMS ARISING FROM RISKS OF LOSS:

The Authority is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$7,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

The Authority is self-insured for any liability associated with its underground fuel storage tanks and has pledged the assets owned by the Authority in conjunction with the self-insurance certification.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective January 1, 2004, the Authority implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, along with all related statements and interpretations. This change in accounting and reporting did not result in a restatement of net assets.

SUPPLEMENTAL INFORMATION

Gun Lake Area Sewer Authority**STATEMENT OF OPERATING EXPENSES BEFORE DEPRECIATION -****BUDGET TO ACTUAL**

Year ended December 31, 2004

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Salaries and wages	\$ 333,800	\$ 324,573	\$ 9,227
Payroll taxes	25,000	25,114	(114)
Insurance:			
Health	102,000	103,602	(1,602)
Life	2,850	2,786	64
Liability	35,000	30,478	4,522
Pension contribution	21,000	21,238	(238)
Postage	3,000	2,616	384
Office supplies	2,000	2,966	(966)
Software support	2,500	2,517	(17)
Lab testing	2,500	2,521	(21)
Clothing allowance	3,000	2,719	281
Lab supplies	4,000	3,681	319
Collection system	30,000	40,462	(10,462)
Plant operations	20,000	34,959	(14,959)
Chemicals	30,600	16,590	14,010
Bio-solid disposal	10,000	1,079	8,921
Grinder pumps	6,500	-	6,500
Repairs and maintenance:			
Collection	40,000	5,275	34,725
Plant	10,000	18,070	(8,070)
Radio	1,500	1,055	445
Audit	6,350	5,200	1,150
Legal	2,000	4,156	(2,156)
Professional services	8,000	2,810	5,190
Telephone	5,500	4,761	739
Gasoline	4,000	6,493	(2,493)
Diesel fuel	7,000	10,105	(3,105)
Shipping	100	26	74
Printing	1,500	1,009	491
Utilities	108,250	103,182	5,068
Garbage service	550	532	18
Contracted services	10,000	4,295	5,705
Dues, memberships, and education	1,000	1,693	(693)
Board meetings	-	-	-
Other	700	1,195	(495)
	<u>\$ 840,200</u>	<u>\$ 787,758</u>	<u>\$ 52,442</u>